House Committee on Agriculture Democrats
ISSUE BRIEF

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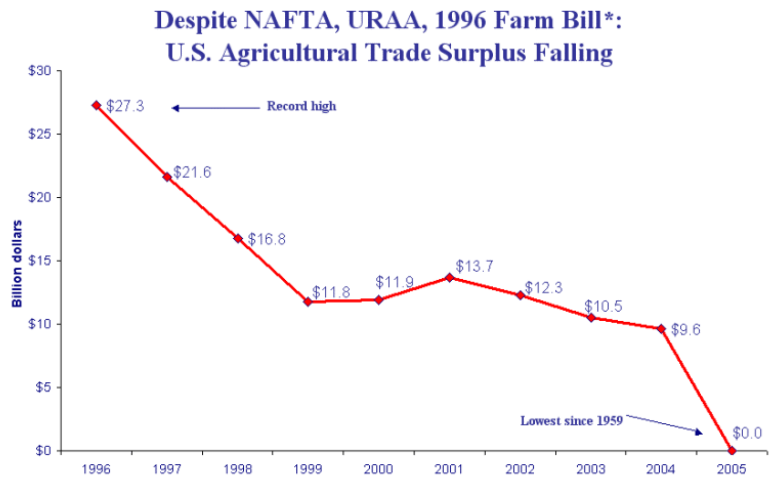
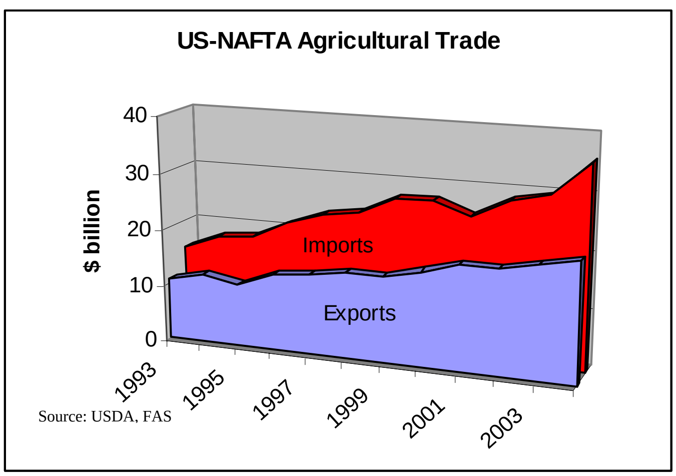
What USDA and USTR WON'T tell you about NAFTA and CAFTA

America's agricultural imports have soared in recent years, while the U.S. agricultural trade surplus has plummeted. For the first time in 46 years, the U.S. Department of Agriculture predicts that in 2005, the U.S. will import as much as it exports. So, a surplus that once peaked at $27 billion in 1996 is now projected to be <u>zero</u> this year. Many economists feel poor trade deals like NAFTA have played a significant role in this alarming trend. Yet in the face of these facts, U.S. trade negotiators continue to pursue new, faulty trade agreements.



Data source: USDA, fiscal year data, November 22, 2004; exports minus imports.
*NAFTA implemented January 1994; Uruguay Round Agreement on Agriculture implemented January 1995; 1996 Farm Bill reduced U.S. commodity export prices.

During the debate on NAFTA, Administration officials promised that the agreement would add 170,000 jobs in the first year alone. According to more recent estimates, the total number of jobs <u>lost</u> because of NAFTA in its first 10 years is about 880,000. This is not surprising if you consider that in the agricultural sector alone, USDA statistics show that our agricultural trade deficit with Canada and Mexico has almost tripled from $5.2 billion to $14.6 billion.



Source: USDA, FAS

<u>Question: Why does USDA talk about exports and not imports?</u>

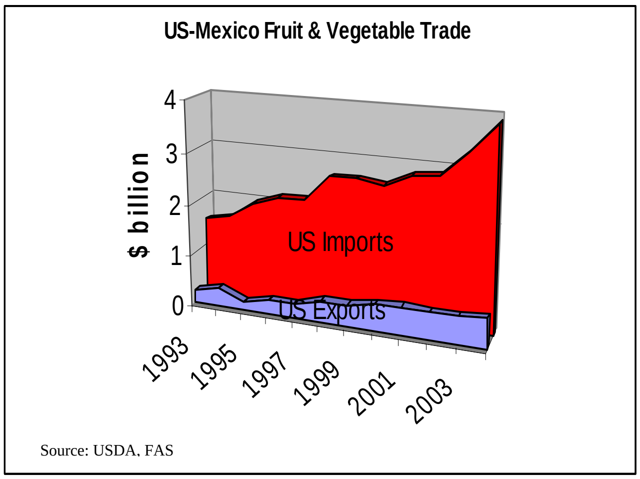
The flaw in the Administration's assurances about NAFTA was that it failed to adequately consider increased imports and job losses. The North American Free Trade Agreement Implementation Act required periodic "assessment[s] of the effects of implementing the Agreement on employment in United States agriculture, including any gains or losses of jobs". USDA's fourth such report is entitled "NAFTA at 11: The Growing Integration of North American Agriculture". The report concludes that "consumers as an aggregated group are the greatest beneficiaries" of the integration of the North American food market. Interestingly, USDA did not limit its analysis to U.S. consumers, as it goes on to state:

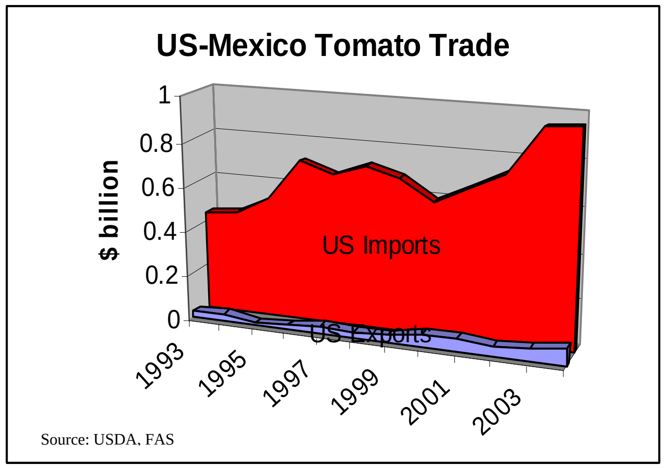
For U.S. consumers, food expenditures have accounted for about 10 percent of disposable personal income throughout the NAFTA period. For Mexican consumers, in contrast, the share of household expenditures devoted to food, beverages, and tobacco has fallen from 36 percent in 1992 to 31 percent in 2002.

<u>Answer: Because imports have increased much more than exports.</u>

Total agricultural imports from Canada and Mexico have now reached a new high of about $36 billion. This represents a $9.3 billion displacement of U.S. production and reduction of our net agricultural surplus. USDA has often argued that each $1 billion in agricultural exports supports 15,000 American jobs. If NAFTA has reduced exports by $9.3 billion, does this mean that NAFTA has cost us 140,000 agricultural jobs? USDA won't tell us.

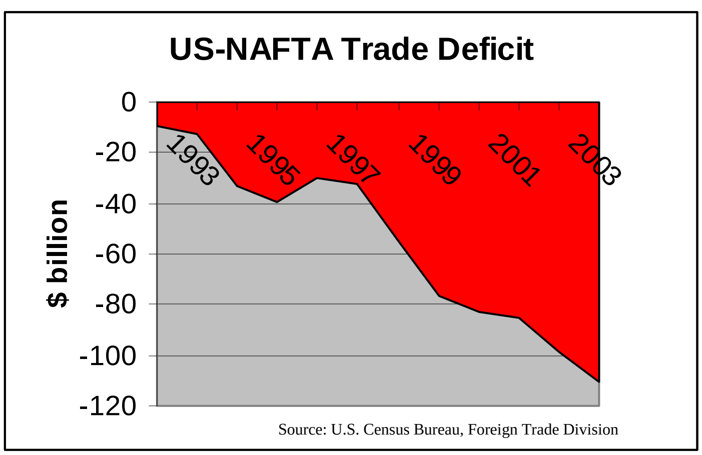
The effect of NAFTA has been very severe in the Fruit and Vegetable sector where the deficit in trade with Mexico has almost tripled to $3.33 billion. Tomato growers have been among the hardest hit, with imports from Mexico reaching $957.8 million last year, compared to exports of only $78.8 million.





Reports from the U.S. Trade Representative (USTR) on NAFTA have focused on exports and downplayed the increases in imports and the consequent displacement of production and loss of jobs under the agreement. USTR's 2004 Annual Report, states:

U.S. goods exports to NAFTA partners nearly doubled between 1993 and 2003, from $142 billion to $267 billion, significantly higher than export growth of 43 percent for the rest of the world over the same period.



Unfortunately, our imports have grown at a much higher rate. In fact our total trade deficit with Canada and Mexico has grown from $10.6 billion in 1993 to $110.8 billion in 2004.

By sidestepping the NAFTA reporting requirements and only reporting the good news associated with trade, the Administration is failing to meet its obligation to Congress and the public to provide a complete analysis of what trade agreements have meant for rural economies.

CAFTA promises

Estimates that forecast sizable trade gains for U.S. farmers and ranchers under CAFTA are even more delusional than the gains predicted from NAFTA. Compared to NAFTA nations' population of over 138 million and GDP purchasing power parity of $1.9 trillion, the CAFTA countries have a combined population of approximately 46 million people and a combined GDP purchasing power parity of only $205 billion. That's 1/3rd fewer people with less than 1/9th of the total purchasing power that NAFTA offered.

Given the poor income distribution in CAFTA countries, it is highly unlikely that there will be resources available for increased purchases of agricultural products from the U.S. (such as expensive hotel grade beef). According to the CIA World Fact Book, Nicaragua, for example, has an income distribution that is worse the countries in Sub-Saharan Africa.

This lack of potential is reflected in the International Trade Commission (ITC) report on CAFTA, which predicts no gains for US wheat and only minimal gains for US rice, corn, and beef. Meanwhile, both the ITC and Farm Bureau predict a huge cost for the US sugar industry. The ITC cites a study predicting a 4.67% drop in US market prices for sugar. The Farm Bureau predicts losses of $80 million for the sugar industry.